

OBJECTIVE VIII. Determine whether or not the BOCs and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which they provide such telephone exchange service and exchange access to themselves or their affiliates.

1. Documented in the working papers the practices and processes the SBC BOCs have in place to fulfill requests for telephone exchange service and exchange access service for SBCLD, other affiliates and nonaffiliates in each state where SBCLD has been authorized to provide in-region interLATA services. The Parent Company represented that all exchange access services and local exchange services purchased by SBCLD are purchased under tariff.

SBCLD and nonaffiliates order telephone exchange service through the SBC BOCs' Marketing departments. SBCLD's requests for telephone exchange service are treated in the same manner as third-party business customers. Other affiliates' telephone exchange service requests are considered internal administrative communications and are generally processed by the Corporate Telecommunications Services (CTS) group, a group within SBC Services, Inc. These requests submitted to the same provisioning system used by the Marketing Group for third-party business customers. In some situations, an affiliate may request service directly from the Marketing Group. Management represented that orders for telephone exchange service placed by SBCLD are handled in the same manner as requests submitted by nonaffiliated customers and are subject to the same controls in place for all telephone exchange service orders.

Management represented that the ordering processes and practices for tariffed access services are the same in all states. These ordering processes and practices are the same for both affiliates and nonaffiliates.

Noted the following SBC BOC internal controls and procedures designed to implement its duty to provide nondiscriminatory service: all local exchange and exchange access products are tariffed offerings, customer billing and provisioning of service is driven by the order process; and, affiliates and nonaffiliates use the same processes and procedures to order local exchange services and exchange access services.

As represented above, the ordering processes and practices for tariffed access services are the same in all states. As such, these ordering processes and practices are the same for both affiliated and nonaffiliated carriers. Thus, the Parent Company's enterprise-wide policy, as reflected in these processes and practices, is that no employee of the section 272 affiliate, or SBC BOC and other BOC affiliates, have access to (or have obtained) information regarding the availability of special access facilities in a manner different from that of nonaffiliates (e.g., direct calls, placed prior to ordering, from the section 272 affiliates or SBC BOC account managers to employees who may have facilities availability information).

Management has instituted numerous other controls and safeguards designed to ensure compliance with section 272 of the Act that also prevent different treatment of affiliates and nonaffiliates. For example, the Parent Company has adopted strict "siloing" guidelines designed to prevent the sharing of nonpublic SBC BOC information with section 272 affiliates (unless done pursuant to an affiliate agreement and made available to nonaffiliates on the same terms and conditions) and prohibit unauthorized communications between the SBC BOC and section 272 affiliates that could result in discriminatory treatment. "Siloing" refers to the safeguard of using structural separation of certain employees within an organization to protect SBC BOC nonpublic information from being shared with any section 272 affiliate. Management enforces these policies through extensive mandatory section 272 compliance training to all affected organizations and employees as well as the widespread internal dissemination of such policies and guidelines (e.g., officer letters, broadcast e-mail messages to all employees, posting on the corporate Intranet web site).

2. For each state where SBCLD has been authorized to provide in-region interLATA services, documented in the workpapers the process and procedures followed by the SBC BOC to provide information regarding the availability of facilities used in the provision of special access service to its section 272 affiliates, BOC and other BOC affiliates and nonaffiliates and noted no differences.

Management represented that the appropriate management representatives (i.e., directors in the Industry Markets (IM) organization with account management responsibility) were asked whether anyone within their groups had been contacted by any affiliate employees to get information regarding special access facilities availability in a manner different from that made available to nonaffiliates. Based on surveys of their respective teams, there were no instances identified by the IM directors in which any affiliate employee had access to or obtained information regarding the availability of special access facilities in any manner that is different than how such information is provided to nonaffiliates.

For clarification purposes, IM Account Managers indicated that there may have been instances in which such information was provided to an affiliate or nonaffiliate in a manner other than the normal ordering process (i.e., outside the ASR process). For example, the IM Account Managers may receive requests for confirmation of facilities availability before submitting an order. IM Account Managers would handle these requests in the same manner regardless of whether the requesting carrier is an affiliate or nonaffiliate.

Furthermore, several IM directors indicated that they were generally aware that on a limited number of occasions, both affiliates and nonaffiliates alike contacted the SBC BOC network organization directly rather than initiating such communications through their designated Account Team. Although the scope of such communications, including any potential discussion of facilities availability, were believed to be no different for any affiliated or nonaffiliated carrier that may have contacted the SBC BOC network organization, these communications should have been requested through the appropriate IM Account Teams. The IM organization's policy is that when these isolated instances

involving a customer (both affiliated and nonaffiliated) occur, the customer is instructed on the proper procedure for requesting such information, i.e., that such communications with the SBC BOC network organization must be coordinated through the appropriate Account Team representatives. The IM organization, at all levels, understands the section 272 guidelines and makes all reasonable efforts to support adherence to them. There are instances, however, like the one described above, in which customers may inadvertently or unknowingly subvert the established guidelines in which case the IM account teams instruct the customer of the appropriate steps that should be followed.

3. For each state where SBCLD has been authorized to provide in-region interLATA services, obtained written methodology that the SBC BOC followed to document time intervals for processing of orders (for initial installation requests, subsequent requests for improvement, upgrades, or modifications of service, or repair and maintenance), provisioning of service, and performance of repair and maintenance services for the section 272 affiliates, SBC BOC and other BOC affiliates and nonaffiliates for exchange access services and presubscribed interexchange carrier (PIC) charge orders. Management represented during the Engagement Period that the SBC BOCs follow the business rules as outlined in the *272(e)(1) Information Disclosure Business Rules*. This document is included as Attachment A-1 and includes a description of each service category, the business rules used to develop the results, the exclusions for each service category, and the formulas for calculating each service category. Business rules will be updated annually.

In addition to the *272(e)(1) Information Disclosure Business Rules*, the SBC BOCs use a document entitled *272(e)(1) ACNA List*. This document contains a list of all Access Customer Name Abbreviations (ACNAs) served by the SBC BOCs. Each ACNA is classified into three categories: section 272 affiliates, other affiliates, and nonaffiliated telecommunications providers. This list is the basis for classifying data for the information disclosure.

During the Engagement Period, the SBC BOCs tracked monthly results by state (starting in the first full month following section 271 authorization¹¹) for the following service categories¹² (SC) for the section 272 affiliates, BOC and other BOC affiliates and nonaffiliates from July 2003 through June 2005:

- SC 1 – Exchange Access: Successful Completion According to Desired Due Date (measured in a percentage).
- SC 2 – Exchange Access: Time from BOC Promised Due Date to Circuit being placed in service (measured in terms of percentage installed within each successive 24-hour period, until 95% installation completed).

¹¹ The SBC BOCs began reporting section 272(e)(1) results in Michigan in September 2003 and in Illinois, Indiana, Ohio, and Wisconsin in October 2003. All other in-region states were reported for the months of July 2003 through June 2005.

¹² The business rules refer to the section 272(e)(1) performance measures as service categories.

- SC 3 – Exchange Access: Time to Firm Order Confirmation (measured in terms of percentage received within each successive 24-hour period, until 95% completed).
- SC 4 – PIC: Time from PIC change request to implementation (measured in terms of percentage implemented within each successive six-hour period, until 95% completed)
- SC 5 – Exchange Access: Time to Restore and trouble duration (percentage restored within each successive 1-hour interval, until resolution of 95% of incidents).
- SC 6 – PIC: Time to restore PIC after trouble incident (measured by percentage restored within each successive 1-hour interval, until resolution of 95% restored)
- SC 7 – Exchange Access: Mean time to clear network/average duration of trouble (measured in hours).

Management prepared results quarterly, not later than 60 days after the end of the quarter and made them available upon request. The results are the responsibility of the Network Results group and Industry Markets group. Management also performs parity comparisons, investigates out-of-parity results, and performs root cause analyses in order to provide recommendations to improve performance.

4. Obtained the performance data maintained by SBC BOCs¹³ from July 1, 2003 to June 30, 2005, by month, by state, indicating time intervals for processing of orders (for initial installation requests, subsequent requests for improvement, upgrades, or modifications of service or repair and maintenance), provisioning of service, and performance of repair and maintenance services for the section 272 affiliates, BOC and other BOC affiliates (labeled as Other Affiliates) and nonaffiliates for exchange access services and PIC charge orders.

Management represented that during the Engagement Period, section 272(e)(1) performance measures for the exchange telephone service, intraLATA toll service or UNEs categories were not available. Management also represented that Feature Group D exchange access or retail exchange access service measurements were not available during the Engagement Period and that the SBC BOCs included OCN activity in the exchange access service measurements for DS3 and above. Management represented that it is committed to providing information regarding service categories as listed in Appendix C of *First Report and Order and Further Notice of Proposed Rulemaking* in CC Docket No. 96-149, issued December 24, 1996, concerning Nonaccounting Safeguards under sections 271 and 272 of the Communications Act of 1934.

¹³ Performance data was not obtained for SNET. SNET is not a BOC and Connecticut is not an AT&T in-region state pursuant to section 271(i)(1); therefore, SNET was permitted to provide interLATA services in Connecticut without the express authorization of the FCC required by section 271. Management tracks and maintains performance data for SNET in Connecticut for internal purposes only.

From the data obtained above, prepared comparisons, shown on Attachment A-2, of the differences in monthly results for each SC for the same service between the section 272 affiliates and nonaffiliates and between other affiliates and the nonaffiliates. Requested explanations from Management where fulfillment of requests from nonaffiliates took longer than for the section 272 affiliates. Prepared linear graphs, at Attachment A-3, for each state, for each performance measure, for each service, over the Engagement Period, depicting the performance for the section 272 affiliates, other affiliates, and nonaffiliates.

Management represented that their internal statistical analyses indicate that the differences noted were either not statistically significant or were merely the result of random variations (i.e., isolated occurrences not indicative of a systemic problem), except as discussed below. Management evaluated the section 272(e)(1) performance measurement results for each chronic out-of-parity condition (i.e., the difference is statistically significant by Management's definition) other than merely random variations. This evaluation includes a more extensive root-cause analysis and associated corrective action plan.

The following summarizes the external chronic out-of-parity conditions that occurred during the Engagement Period:

- Projects exclusion – Projects¹⁴ should have been excluded in the calculation of SC 3, *Time to Firm Order Confirmation*. Effective January 2004, all project data was removed from the calculation per the business rules.
 - Volume Discount Tariff – There are customers in both the “other affiliates” and the “nonaffiliates” categories that purchase out of a volume discount tariff. Such tariffs include additional service commitments (service level assurance or SLA plans). Thus, separating out and comparing only customers purchasing out of the volume discount tariff resulted in parity service levels.
 - Severe Weather Conditions (state of emergency in California) – Specific geographic locations within the state of California experienced severe weather during the timeframe in question. The relationship of numerous factors, including primarily the geographic location and size of the affected and unaffected customer base, led to an isolated chronic out-of-parity condition.
5. Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly selected the months of November 2004, February 2005 and May 2005. For the selected months, applied the business rules to the underlying raw data and compared the results to those tracked and maintained by the SBC BOCs for that SC. Application of the business rules considered the definitions, exclusions, calculations and reporting structure included in the business rules. All differences noted for SCs 1, 2, 3, 4, 5, 6 and 7 are included in Attachment A-4.

¹⁴ Projects represent complex (typically a predetermined number, or more, of circuits) access service orders (ASRs) for which the firm order commitment interval is negotiated.

During this engagement, Management discovered that the underlying raw data used to calculate SC 4, PIC: Time from PIC change request to implementation, for the sample months selected was not available and could not be provided for the SBC Midwest region. Due to limitations in the Customer Account Record Exchange database used in the Midwest, the raw data was essentially not retrievable after 60 days. As such, the data was not maintained in a file that could be copied. Consequently, no process or procedure exists to retain/back up the database for any purpose other than short-term disaster recovery and no recalculations were performed for the SBC Midwest region for SC 4.

6. Inquired how and where the SBC BOCs make available to unaffiliated entities information regarding service intervals in providing any service to the section 272 affiliates, themselves or their affiliates and to unaffiliated entities. Management represented that the SBC BOCs make available to unaffiliated entities information regarding achieved service intervals in providing certain special access services and processing PIC changes in accordance with the SBC BOCs' 272(e)(1) *Information Disclosure Process*. All requests to review the 272(e)(1) Information Disclosure Reports should be directed to the Account Manager – 911 Services. The response time for report requests shall be not later than seven days after the date on which the request is received by the Account Manager – 911 Services. Monthly data shall be provided when a request for information is received. Since no performance results were requested or provided to unaffiliated entities during the Engagement Period, no inspection of how Management made the performance results available was performed.

OBJECTIVE IX. Determine whether or not the BOCs and an affiliate subject to section 251(c) of the Act have made available facilities, services or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as they have to their affiliate required under section 272 that operates in the same market.

1. Obtained a list of exchange access services and facilities with their related rates offered to SBCLD. Management represented that all exchange access services purchased by SBCLD are purchased under tariff. SBCLD does not have interconnection agreements or individual case basis agreements with the SBC BOCs. Management represented that the primary media used to make exchange access services and facilities available is the Prime Access web site. Obtained summaries of all exchange access services and facilities offered to SBCLD. Obtained excerpts from the exchange access tariffs for each in-region state at the Internet site, www.sbc.com. Management notifies carriers through the use of accessible letters that are mailed or electronically sent and posted on the Prime Access web site. Obtained the index to the Prime Access web site that listed all accessible letters related to exchange access services and facilities. Management represented that carriers may also obtain information from their account manager or from a customer service representative at the Access Service Center. Obtained copies of the tariff agreements for exchange access services and copies of 25 accessible letters or other media related to tariff pricing posted on the Prime Access web site during the Engagement Period. Noted that all exchange access services and facilities offered via the Internet sites, www.sbc.com and www.sbcprimeaccess.com, were offered at the same rates, terms and conditions to all carriers.
2.
 - a. Randomly selected three months from the Audit Test Period, August 2003, March 2004 and October 2004. For each of the three months selected, obtained a listing of all USOCs rendered to SBCLD from the SBC BOCs. From this listing, determined the 9 highest services, TMECS, TUZPX, T6XBX, 1YZX4, 1L5XX, 1YZX5, TZ4X4, CZ4X4, 1YZX3, and randomly selected one additional service, 1HYBS. For these 10 services, determined whether or not the services meet both of the following conditions: i) the USOC/class of service was also rendered to unaffiliated third parties, and the dollar amount of the billing for such service to third parties was greater than 25% of the total quantity of such service sold by the SBC BOCs and ii) at least one of the unaffiliated third parties purchasing such service was an interLATA service provider. In order to determine if the USOC/class of service was also rendered to unaffiliated third parties for eight of the nine USOCs selected, obtained the June 2005 billing detail for three other IXC. For one of the nine highest USOCs selected for testing, obtained the June 2005 billing detail to all IXCs. Compared the June 2005 billings to the IXCs to the three months billings to SBCLD selected for testing and noted that billings to the third party IXCs were greater than 25% of combined billings of the third-party IXCs and SBCLD.

In order to determine if the USOC/class of service codes selected for testing were also rendered to unaffiliated third parties, obtained the billing detail for the selected USOCs/class of service codes for all IXC for the three months selected for testing. Included in the listing were at least three IXCs. Compared the total of the billing detail for all third parties for the three months selected to the billings to SBCLD and noted that total for third parties was greater than 25% of total billings. Therefore, it appeared both criteria were met for all USOCs selected for testing.

Management represented that CABS is the only billing system the SBC BOCs use to bill the selected services, and that the same system is also used to bill both the section 272 affiliate and other IXCs.

1. Inquired and documented the SBC BOC procedures for ensuring that the applicable tariff or agreement rate is billed to both the section 272 affiliate and nonaffiliates. Management represented that no specific process is required to ensure the applicable tariff rates are billed to both the section 272 affiliate and nonaffiliates, since the same rate tables are used to bill all exchange access customers of the SBC BOCs, regardless of customer status as affiliated or nonaffiliated. Management was unable to provide the CABS rate tables for all USOCs, but did provide an extracted version of the rate tables for those USOCs that were selected for testing. The rate table data provided was extracted from the Enterprise Table Management (ETM) system. ETM is an application which manages and maintains all of the SBC BOCs' CABS rate table information. ETM provides transformation capability to extract data from the rate tables.

In order to determine if the rate tables in place reflect the current tariff or agreement rates, compared the rates that were billed for all 90 transactions selected in step b. below to the rates found on the tariffs. Also compared the rates that were charged on the invoices to the rates that were found on the extracted version of the CABS rate tables. No differences were noted.

Inquired and documented the SBC BOCs' procedures for updating the rate tables for the Audit Test Period. The rate update process begins when an account manager or negotiator sends a contract request from a carrier to Contract Management. Contract Management retains copies of these requests. A log exists to track the volume of requests received and other data. Within Contract Management, the production and processing team prepares the contract and contract pricing provides rate information for the contract. New rate information may be obtained from the contract request or from existing contracts if the carrier is trying to elect most favored nation (MFN) rates for one of these contracts. When state regulatory approval is received, the rate information is provided by Contract Pricing to the CABS group for update. Contract Management keeps copies of the regulatory reports that are published each month, which detail the

approvals of contracts. The rate information is prepared and sent to CABS personnel in the format of an Excel matrix. Verification is performed on the information entered into the matrix by another pricing manager. A hard copy of the matrix is retained, and an electronic file is kept on a shared drive to which only Contract Pricing personnel have access. Once the Federal Regulatory Rates and Tariffs group has submitted a federal tariff filing to the FCC or state public utility commissions, via their Electronic Tariff Filing System, copies of the transmittal letter and tariff pages are distributed on the actual file date and again on the effective date to select CAB members. Upon receipt of these, the rate group in St. Louis begins processing the rates, but they are not “live” until an official notice is received from the regulatory group. Depending on the filing type, the effective date can be a 1-day or 15-day (calendar days) interval. Once the rate is approved, a second e-mail is sent to the CABS group in St. Louis as well as to Contract Pricing and the rates become “live.” One person who reports to the Director- Rates and Tariffs, is responsible for sending the e-mails informing the CABS group in St. Louis of a rate changes. Once a rate has been established, Contract Pricing is responsible for following up and verifying that the rate has been approved.

2. For the CABS billing system that is used to bill section 272 affiliates and nonaffiliates, Management represented that no specific practices are required to ensure billing systems bill the section 272 affiliate and nonaffiliates at the same rates and under the same terms and conditions. The SBC BOCs’ billing systems do not differentiate between the section 272 affiliate and nonaffiliates; the same billing system procedures are applied to the section 272 affiliate and nonaffiliates in a like manner. The controls that Management represented are in place over the system with regard to program changes are as follows:
 - Notifications of changes that may affect other applications are sent to representatives of other applications.
 - System testing is conducted on all changes prior to release to production.
 - The duties of information technology employees are limited to one function so that no employee can both create and implement an unauthorized system, program or database modification.
 - Software changes are documented, tested and approved in accordance with the software change management policy including, if necessary, emergency changes, master file changes and database updates.

The controls that Management represented are in place over the system with regard to logical access are as follows:

- The Resource Access Control Facility system (RACF) is an enterprise-wide system used to control systems access and is configured according to Operating Procedure 113 guidelines. Systems administrators and security administrators complete an annual mainframe security checklist to ensure compliance with operating procedures and submit them to the Corporate Information Systems Technical Director.
- All user IDs follow a formal process as documented in the user ID process documentation. Automated nightly feeds from the SUITS database are used to create or delete user IDs. System analysts create new RACF users based on unique user IDs from the user ID database.
- On a nightly basis, Human Resources send a list of terminated individuals electronically to the employee and contractor databases. The list is then uploaded into the systems users control database and the data is fed into the mainframe system on a nightly basis. An automated program is run each Monday, Wednesday and Friday to delete user IDs from the mainframe system.
- An automated maintenance program runs every Monday, Wednesday and Friday that deletes those user IDs that have not changed their password on any system for 120 days (deletes ID from all systems), or for user IDs that have not been active on specific systems for 180 days. The program also deletes the user ID from all resource access lists.

The CABS billing system processes bills for special access, switched access and collocation in all SBC BOC regions, and UNE products in SBC Southwest. The billing periods are the 5th, 15th, and 25th of each month. The billing system sends and receives information to and from the CF01 (bill hold file) account database, the CF03 rate database, the CF06 collections database, and the CN100 TAR database for taxes. Some of the controls that Management represented are in place that handle recording billed amounts as revenue, and the controls in place for recognizing and recording when the billed amount is actually paid, are as follows:

- Reconciliations of amounts billed to amounts journalized are performed.
- CABS accounts receivable is reconciled monthly to the corresponding general ledger account.
- The reconciliation is reviewed and approved by an individual independent of the preparer.

- Accruals of earned but unbilled and billed but unearned CABS revenue are calculated using consistent methodology, approved by appropriate personnel, and analyzed using fluctuation analysis.
 - CABS systematically compares the amount billed to the amount journalized and alerts users of any differences. Any imbalances are investigated by the Journals group for both regions.
 - The system-generated reports are used to trend and report billing data from identified control data points in CABS. Any revenue amounts that are outside predefined ranges receive warnings and are investigated.
- b. For each month selected in step a, obtained the detail billing records for each of the 10 USOCs that were selected for testing. Billing records were for all states. From the billing detail, randomly selected three circuits for each of the USOCs for each month selected for testing for a total of 90 transactions. For each of the 90 billing transactions selected, agreed the rate per the bill to the rate table extracted in step a. above. Noted that the rate table extract listed several rates per USOC tested. Agreed one of the rates per USOC to the rate billed. For the 90 transactions tested noted the following:
- For the nine transactions listed below, no comparison could be made as the bill detail was not provided.

Table 4: Exchange Access Detail Bills to SBCLD Not Provided						
	USOC	Class	Region	Month	Rate	BAN
1	TUZPX	HZK3X	Texas	August 2003.	\$1,250	7100806557230
2	TUZPX	HZK3X	Texas	August 2003	\$1,950	7100889048973
3	TUZPX	HZK3X	Texas	August 2003	\$975	5100802757417
4	TUZPX	HZK3X	Texas	March 2004	\$1,850	5100888628698
5	TUZPX	HZK3X	Texas	March 2004	\$1,250	6100888852944
6	TUZPX	HZK3X	Texas	March 2004	\$975	7100889048973
7	TUZPX	HZK3X	Texas	October 2004	\$850	7100806559341
8	TUZPX	HZK3X	Texas	October 2004	\$1,900	6100888852944
9	TUZPX	HZK3X	Oklahoma	October 2004	\$1,850	4100889441936

Obtained the Payment.net documents to support the amounts paid and recorded by SBCLD. This documentation supported the payment by SBCLD and the debit in the associated accounts payable on SBCLD's books. Management represented that the

Corporate Accounts payable system (operated by SBC Services, Inc.) automatically remitted the amounts recorded to the SBC BOC by electronic funds transfer to the SBC BOC's bank account; and as such, the provided Payment.net documents represent the amounts paid by SBCLD and received by the SBC BOCs. Management also represented that the SBC BOC revenues are recorded at a summary level and the amounts billed for the tested transactions are rolled up to the summary level through automated processes, CABS systematically compares the amount billed to the amount journalized and alerts users of any differences on an automated report, and any imbalances are investigated by the Journals group. For the 90 transactions tested, the differences noted are listed below:

- For nine of the 90 transactions, the amount paid and recorded by SBCLD did not agree to the amount that was billed by the SBC BOC. The nine differences are listed in the table below:

	USOC	Class	State	Month	Year	BAN	Circuit	Over/(Under) Payment Difference
1	1HYBS	XBCD4	Texas	Aug.	2003	7100889051945	37.OBGS.603724..SW	\$(11,300.00)
2	1HYBS	XBCD4	Missouri	Mar.	2004	1201888837972	82.OBGS.701016..SW	944.51
3	T6XBX	XBCD4	Missouri	Oct.	2004	1201888837972	82.OBGS.701016..SW	14.10
4	1HYBS	XBCD4	Missouri	Oct.	2004	1201888837972	82.OBGS.701016..SW	14.10
5	1L5XX	XDH1X	Texas	Mar.	2004	7100604078070	36.HCGS.606880..SW	506.96
6	1YZX3	XDH1X	Indiana	Aug.	2003	219S601690690	.HCGS.667839..NB	2,786.37
7	T6XBX	XBCD4	Oklahoma	Oct.	2004	4100889442933	98.OBGS.877447..SW	12.75
8	TMECS	XDH1X	Texas	Aug.	2003	5100604025428	14.HCGS.867733..SW	4,498.00
9	TMECS	XDH1X	Texas	Aug.	2003	6100604021078	28.HCGS.731578..SW	1,350.00

- For seven of the 90 transactions, no Payment.net support showing that SBCLD paid and recorded the transaction was provided.
 - For four of the 90 transactions, no Payment.net support showing that SBCLD was paid was provided since the total amount due on the bill was a credit balance.
- c. Management represented that the same systems are used to bill unaffiliated entities and the section 272 affiliate.
- d. Since the same systems are used to bill both the section 272 affiliate and unaffiliated entities, this procedure was not performed.

OBJECTIVE X. Determine whether or not the BOCs and an affiliate subject to section 251(c) of the Act have charged their separate affiliate under section 272, or imputed to themselves (if using the access for their provision of their own services), an amount for access to their telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

1. Obtained a list of six interLATA services offered (National Directory Assistance (NDA), Enhanced 911 Service (E-911), Integrated Services Digital Network User Part (ISUP), Line Information Database (LIDB), Calling Name Database (CNAM) and 800 Database Query) by the SBC BOCs operating in each state in which SBCLD has received section 271 approval and discussed the list with the appropriate SBC BOC representative, who indicated that the list was comprehensive. Compared the services appearing on the list with all the incidental interLATA services disclosed in the SBC BOCs' Cost Allocation Manual (CAM) Section II, Nonregulated Activities. Noted no differences. Compared the nonregulated incidental interLATA services listed in section II of the SBC BOCs' CAM with those defined as incidental in section 271(g) of the Act and those interLATA services allowed under FCC order and noted no differences.
2. Management represented that from the list of six services obtained in Procedure 1 above, the SBC BOCs, except SBC SNET, only imputed amounts for access, switching and transport for the NDA service during the Engagement Period. In the SBC SNET region, a separate affiliate provided NDA service during the Engagement Period. Management represented that it does not impute amounts for access, switching and transport for ISUP, LIDB, CNAM and 800 Database Query incidental services listed in the SBC BOCs' CAMs. Management represented that no imputation is performed for these signaling services since the nonregulated network costs associated with the signaling services are appropriately allocated by the CAM and FCC Form 495 A&B process. Management represented no imputation is required for E-911 services since it is considered an information service and the transport-related costs are bundled into the tariff charges to the end customer. Management represented that these transport charges are recorded as regulated revenues; therefore, a separate imputation calculation is not necessary.

For SBC Southwest and SBC West, obtained usage details, rates imputed and tariff rates for NDA service for each state for each month of the Engagement Period. For SBC Midwest, obtained usage details, rates imputed and tariff rates for NDA service for September 2003 to June 2005 for Michigan and October 2003 to June 2005 for Illinois, Indiana, Ohio and Wisconsin. Compared the rates imputed to the tariff rates and noted differences for the rates used in 2003 and 2004. These differences are listed in Attachment A-5. These differences noted resulted in total over imputations of \$4,548.80 for 2003 and \$15,213.05 for 2004. For one month tested, traced the amounts imputed for each BOC to the journal entry and to the general ledger and noted that the entry was a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase).

Local Exchange Services, SBC BOCs to SBCLD For the twelve months ended June 30, 2005	
SBCLD Expensed amounts for Local Exchange Services Purchased from the SBC BOCs	\$2,810,856
Total amounts paid by SBCLD to the SBC BOCs for Local Exchange Services	\$2,810,856
<i>Difference - SBCLD Expense less SBCLD amounts paid</i>	<i>\$0</i>

Management represented that SBCLD records expense for local exchange services upon payment. The differences between the amounts recorded by SBCLD for local exchange service and the SBC BOC revenue amounts for local exchange services sold to SBCLD are due to the following reasons:

- The SBC BOCs recognize the revenue when the local exchange service bill is rendered. SBCLD records the expense when payment is made. Consequently, SBC BOC revenues include amounts not yet paid or expensed by SBCLD and some SBCLD payments relate to prior period billings from the SBC BOCs.
- SBC BOC local exchange bills may include amounts for services provided by other SBC affiliates, such as voice mail services. SBCLD records the entire amount of the bill to the same expense account; however, the SBC BOCs do not record the services provided by other affiliates as revenue.
- SBC BOCs include taxes and surcharges on the bills rendered to SBCLD. The taxes and surcharges are not included in SBC BOC revenue, but are included in SBCLD's expense and payment amounts.

OBJECTIVE XI. Determine whether or not the BOCs and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to their interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

1. Management represented that the following interLATA services were offered by the SBC BOCs to SBCLD and other IXC's during the Engagement Period:
 - ISUP-Signaling
 - 800 Database Query
 - LIDB

Management represented that these services are provided under FCC tariffs and are made available to all carriers on the Prime Access web site.

Management also represented that SBC Midwest offered CNAM services to SBCLD and other IXC's during the Engagement Period. SBC Midwest offered CNAM services to IXC's pursuant to commercial agreements.

Compared these services to the list of services obtained in Objective V,VI, Procedure 4. Noted that these services were not included in the list obtained in Objective V,VI, Procedure 4. Management represented that SBCLD did not purchase any interLATA services from the SBC BOCs during the Engagement Period.

Compared these services to the list of services obtained in Objective X, Procedure 1. Noted that these services were included in the list obtained in Objective X, Procedure 1.

2. For ISUP-Signaling, 800 Database Query and LIDB, accessed the Prime Access web site and obtained copies of FCC Tariff 2 for SBC Midwest, FCC Tariff 1 for SBC West, FCC Tariff 39 for SNET and FCC Tariff 73 for SBC Southwest. Noted that the tariffs offer services at the same rates, terms, and conditions to SBCLD and unaffiliated carriers.

For CNAM services, Management represented that this service was offered through customer requests to Industry Markets and no other media is available.

3. Management represented that, during the Audit Test Period, the SBC BOCs did not render any interLATA services listed in Procedure 1 above to SBCLD; therefore, no interLATA services could be selected for testing and this procedure could not be performed.

Procedures for Subsequent Events

1. Management represented that the SBC BOCs and SBCLD's processes and procedures have not changed since the time of execution of these procedures and the end of the Engagement Period.
2. Obtained written representation from management that they were not aware of any events subsequent to the Engagement Period, but prior to the issuance of this report, that may affect compliance with any of the objectives described in this document.

Management represented that as of November 18, 2005, SBC Communications Inc. merged with AT&T Corp. and the legal name of SBC Communications Inc. was changed to AT&T Inc. As of November 18, 2005, AT&T Corp. and its subsidiaries are to be treated as section 272 affiliates of AT&T Inc. and will be structurally separate from the SBC BOCs.

Management represented that the following two instances of services provided to SBCLD by the SBC BOCs without an affiliate agreement occurred after the end of the Engagement Period:

- In July 2005, a couple of employees from other affiliates that were assigned to work for SBCLD (these employees were not SBCLD employees) participated in an SBC BOC service trial and received some information that may have not been permissible under the section 272 separation requirements. Upon discovery of this instance, Management valued the information shared with these employees, prepared an affiliate agreement and posted the affiliate agreement on the Internet site, www.sbc.com, in October 2005.
- In August 2005, a distribution list for a consumer services pricing summary was inadvertently changed and the list was subsequently sent to SBCLD employees. Upon discovery of this instance, Management valued the information shared with SBCLD employees, prepared an affiliate agreement and posted the affiliate agreement on the Internet site, www.sbc.com, in October 2005.

Follow-up Procedures on the Prior Engagement

Noted the following actions taken by Management to ensure nonrecurrence and improvement of prior reported items, and the effective dates of such actions when performing the procedures related to the findings noted in the Report of Independent Accountants on Applying Agreed-Upon Procedures dated December 15, 2003 (Prior Report):

- a. Objectives V & VI, Procedure 4a – Documented three instances (involving the lack of seven agreements) where an SBC BOC provided services to a section 272 affiliate without a written agreement.

Two additional instances where an SBC BOC provided services to a section 272 affiliate without a written agreement are noted in this report.

Management Comments: As noted in the Prior Report, in each case, SBCLD and the SBC BOCs executed affiliate agreements for each of the instances described above. In addition, remedial training was held with the associated business units to reinforce the appropriate process for providing service to the section 272 affiliate.

- b. Twenty-four (24) affiliate agreements were posted to the Internet more than ten days after their effective date (V/VI-5 in the report, V/VI-5 in this program).

Twelve additional instances where affiliate agreements were posted to the Internet more than ten days after their effective date are noted in this report.

Management Comments: Management identified the following reasons for the late postings noted in the Prior Report and implemented the internal control improvements:

- System Freezes – Occasionally, the system through which affiliate agreements are posted temporarily suspends updates to all subject Internet pages. SBCS has made arrangements with the responsible systems group to ensure SBCS Internet postings will not be subject to the update suspensions.
- Employee Transfers – The responsibility for processing affiliate agreements for Internet posting was transferred from one employee to another and agreements were posted late during the gap before the new employee was fully trained. SBCS management has since cross-trained other employees to cover Internet posting responsibilities.
- Employee Errors – An employee responsible for processing affiliate agreements for Internet posting did not post all agreements on a timely basis. The employee is no longer with SBCS and SBCS management implemented monitoring procedures for tracking Internet posting timeliness on a monthly basis to identify any errors and apply remedial action as necessary.

c. For services tested that were provided by the section 272 affiliates to SBC BOCs (V/VI-7 in the report, V/VI-8 in this program):

- For nine of 136 services tested, the mark-up rates used (or whether a mark-up was used at all) could not be substantiated by SBCS; therefore, no determination could be made as to whether these rates were in compliance with the affiliate transaction rules.
- Rates for four of 136 services billed by SBCS to SBC BOCs were priced at rates different than the lesser of FDC or FMV.
- Rates for 44 of 233 services tested that were rendered by ACI were higher than the rates supported by FDC or FMV studies provided by ACI. Additionally, for 59 of the 233 services, ACI did not provide FDC or FMV rate studies to support the rates charged; consequently, no determination could be made as to whether the rates billed were in compliance with affiliate transaction rules.
- Differences noted, and/or the inability to agree the amounts per invoice paid by the SBC BOCs and the amount billed by SBCS – For eight of 100 invoices, differences were noted in the paid amounts per invoice provided by the SBC BOC and the amount billed by SBCS. In addition, for 42 of 100 invoices, the payment support provided by the SBC BOC was a listing of check amounts paid by the SBC BOCs to SBCS. Since many of the check amounts were for multiple invoices, the payments of individual SBCS invoices could not be agreed to the check amounts listed on the payment support.

Six additional instances of rate and payment differences related to services provided by SBCLD to the SBC BOCs are noted in this report.

Management Comments: Management determined, subsequent to issuance of the Prior Report, that most of the documentation reported as not having been made available, was in fact provided, but very late in the engagement process. Consequently, the practitioner did not have the opportunity to review the information before issuing the Prior Report. On March 31, 2004, Management met with FCC Staff to discuss opportunities to improve the engagement process so that obstacles that delayed completion of the prior engagement in a timely basis could be avoided on the next engagement. As a result of this meeting, SBCLD documented a series of recommended internal process improvements to better plan for the next engagement period. In addition, SBCLD has consolidated its billing systems onto a single platform since the last engagement, which should permit performance of the current procedures in a more efficient manner.

Payment of multiple invoices by one remittance is a normal business process compliant with section 272 nondiscrimination obligations for which no corrective action is required.

d. For services rendered by the SBC BOCs to the section 272 affiliates (VII-3 in the report, VII-4 in this program):

- The rate charged to an unaffiliated carrier by the Ameritech BOCs on December 2001 billing for "Account Maintenance CIC" was \$0.055 per unit compared to \$0.045 per unit billed to SBCS.
- For 16 of the 20 SBCS billings, compared the amount billed to SBCS by the SBC BOCs to the amounts paid by SBCS and noted that one invoice was underpaid by \$176.87. Management represented that this payment difference was due to a billing dispute. Payment support for four of the 20 SBCS billings totaling \$531.33 used in the above comparison was not provided by SBCS.
- For 15 of the 81 local exchange service rates selected, the rates charged did not agree to the tariffed rates. The rates (by USOC and class of service) charged by the SBC BOCs to the section 272 affiliates are in some cases lower than the tariff rates charged unaffiliated carriers.
- For four of the 25 invoices, payment support was not provided by SBCS.

Four additional instances of rate and payment differences related to services provided by the SBC BOCs to SBCLD are noted in this report.

Management Comments: SBCS (now SBCLD) was billed at \$0.045 per unit offered for a three-year agreement, as compared to the \$.050 rate offered for a one-year agreement. As described in the Prior Report, an unaffiliated carrier signed a one-year agreement at the standard offered rate of \$0.050 per unit. Due to budget constraints, the unaffiliated carrier requested that the SBC BOC bill them \$0.045 for the last six months of 2001 and \$0.055 for the first six months of 2002. The unaffiliated carrier should have been billed at the rate of \$0.045 in the December 2001 billing but the SBC BOC incorrectly applied the 2002 rate to the December 2001 invoice. Management considers this occurrence to be an isolated event, not requiring corrective action.

Management does not consider a difference related to a valid billing dispute as an occurrence requiring corrective action.

Any errors that would have been noted with respect to a USOC rate differing from the tariff rate for local exchange service would have been applied equally to SBCLD and unaffiliated customers. (Note: The majority of differences noted were related to USOC rates for the Federal Universal Service Fee.)

SBCLD was unable to locate payment support for the requested invoices because the amounts in question were small and may have been combined with other payments.

- e. The performance measures (PMs), which are designed to determine compliance with the nondiscriminatory requirements of section 272(e)(1), reveal an erratic pattern of performance, some in favor of the affiliates and some in favor of the nonaffiliates, at different stages of completion of the requests for service (VIII-4 in the report, VIII-4 in this program). In addition, differences were noted in the replication of all PMs except for PM 3 (VIII-5 in the report, VIII-5 in this program).

Similar performance and replication differences are noted in this report.

Management Comments: As Management represented in the Prior Report for procedure VIII-4, internal statistical analysis of the differences in results for affiliates versus nonaffiliates were not statistically significant, except for certain results for PM 3, as noted in the summary out of parity analysis provided by Management and included in the workpapers, and that the differences were merely the result of random variations. Please see page 33 of the Prior Report for Management's complete representation.

As stated in Management's Comments for Objective VIII – Procedure 8 dated December 15, 2003 attached to the Prior Report, the differences between the performance results calculated by Management and those calculated by the practitioner occur primarily because of the time lag between the two calculations.

- f. A test of exchange access rates by USOC code reveals that the rates charged by the SBC BOCs to the section 272 affiliates are in some cases lower than the rates charged to unaffiliated carriers (IX-2 in the report, IX-2 in this program).

Two additional instances of rate differences are noted in this report and ten instances were not compared because insufficient data was provided.

Management Comments: As explained in the management response to the procedure in the Prior Report, USOC rates differed because of rate zone, term, and/or volume discounts, and because certain USOCs have mileage-based rates which result in different rates billed for the same USOC on circuits with different mileage lengths.

- g. A test of invoices for exchange access services revealed differences (for eight out of 85 invoices tested) between the amount billed by the SBC BOC and the amount paid by SBCS (IX-3 in the report, IX-2 in this program).

Nine additional instances of payment differences are noted in this report and seven instances were not compared because insufficient data was provided.

Management Comments: As explained in the management response to the procedure in the Prior Report, the differences noted on the eight invoices were due to charges that were under dispute by the SBCLD, including four charges of \$675 each for expedited service.

- h. Management represented to the auditor that only SWBT and Pacific Bell impute amounts for access, switching, and transport associated with National Directory Assistance (NDA), and that the imputation for NDA was the sole imputation performed by the BOCs. In response to a post-audit inquiry from Commission staff, Management represented that some small amounts of imputation should have been done for E-911 services, but that these amounts were immaterial and therefore no SBC retroactive adjustments were recorded by the SBC BOCs (X-2 in the report, X-2 in this program).

Additional over imputation differences are noted in this report.

Management Comments: In response to a post-audit inquiry, Management stated the following:

“In Oklahoma beginning in 2003, SBC Oklahoma switched from a separate ALI circuit USOC, which was billed and accounted for as regulated, to a bundled USOC offering. Furthermore, SBC Oklahoma did not perform a regulated/nonregulated revenue split for the bundled USOC offering because at the time of the change most PSAPs in Oklahoma were grandfathered under the previous separate ALI circuit USOC arrangement.”

Thus, as indicated above, Management identified during the review that the revenue allocation between regulated and nonregulated was in error. An imputation was not required because the transport revenue to be booked is part of the regulated services. As such, the referenced post-audit inquiry correspondence is merely addressing an accounting correction and not a new imputation.

Consequently, the survey presentation indicating that there is no E-911 imputation, is correct.

- i. Differences were noted between amounts recorded as expense and paid by the section 272 affiliates vs. the amounts booked as revenue by the SBC BOCs for exchange access services and local exchange services provided to the section 272 affiliates (X-3 in the report, X-3 in this program).

Additional differences are noted in this report.

Management Comments: As Management documented in the Prior Report, the differences occurred for the following reasons:

Exchange Access

- SBC BOC revenues were recorded at the actual amounts billed and section 272 affiliate recorded expenses were estimated accruals.
- Total SBCLD payments included payments for billings received in the prior Engagement Period from the SBC BOCs.
- Total SBCLD payments did not include amounts billed by the SBC BOCs near the end of the Engagement Period and paid by SBCLD after the Engagement Period.

Local Exchange

- The SBC BOCs recorded revenue when the local exchange bills were issued. SBCLD recorded the Local Exchange expense when it paid the bills. Amounts expensed/paid by SBCLD as reflected above include bills issued by the SBC BOCs prior to the start of the audit test period.
- The SBC BOC revenue for these bills was recorded prior to the Prior Report but SBCLD's payments for these bills were made within the Audit Test Period. Conversely, bills issued by the SBC BOCs and recorded as revenues near the conclusion of the Audit Test Period were not yet received, processed, and/or paid by SBCLD prior to the end of the Audit Test Period and as such, are not reflected in the reported amounts.
- In addition to billing for services provided, the SBC BOCs add taxes and surcharges to the bill. The SBC BOCs do not record the taxes and surcharges as revenues; however, SBCLD records billed taxes and surcharges as expenses.

The above differences occurred in the ordinary course of business.

- j. Subsequent to the audit, Management represented to the auditor that in Texas, SWBT offered an interLATA T-1 facility to a CLEC instead of offering the interLATA service through SBCS. This violation of an interLATA service offered by the BOC, instead of through a separate affiliate required by section 272(a), went on from August 2000, through the June 30, 2003, sunset date for Texas (Procedures for Subsequent Events in the report, page 42).

No similar instances were noted during the Engagement Period.

Management Comments: As stated in Management's Comments dated December 15, 2003, attached to the Prior Report, this violation was corrected through refunding the revenues received. Management considers this violation to have been a one-time isolated event not requiring remedial process changes.



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December 8, 2005

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Federal Communications Commission
445 12th Street, NW
Washington, DC 20554

Ms. Deena Clausen
Ernst & Young LLP
Frost Bank Towers, Suite 1900
100 West Houston Street
San Antonio, Texas 78299-2938

Re: Section 272 Biennial Audit of AT&T Inc.

Dear Mr. Boyle and Ms. Clausen:

AT&T Inc. ("AT&T")¹ submits these comments to Ernst & Young's audit report pursuant to Section 272(d) of the Communications Act of 1934, as amended ("the Act") and Section 53.209 of the Commission's rules. These comments are being submitted to the Joint Federal/State Oversight Team ("JOT") and to Ernst & Young in accordance with 47 C.F.R. Section 53.213(b) and will become part of the final audit report.

The results of the Agreed-Upon Procedures, as reflected in the Final Audit Report, reveals that AT&T has effectively implemented internal policies, procedures and practices to comply with the Section 272 requirements of the Act. Due to the nature of an agreed-upon procedures engagement, Ernst & Young has performed the procedures as agreed to by the JOT and AT&T and has reported all results, regardless of materiality. Accordingly, the audit report includes minor exceptions.

AT&T provides these comments to address certain procedures or results noted in the practitioner's audit report that may require additional information or clarification.

Sincerely,

A handwritten signature in black ink, appearing to read "m. a. thomas".

Attachment

¹ As of November 18, 2005 SBC Communications Inc. has been renamed to AT&T Inc.